COLORADO STATE FAIR AUTHORITY

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2006 and 2005

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COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
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Authority, Purpose and Scope

The audit of the Colorado State Fair Authority was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all State agencies. The 2006 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was conducted in accordance with audit standards generally accepted in the United States of America. Audit work was performed June through October, 2006.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of the Colorado State Fair Authority for the year ended June 30, 2006, and to express an opinion on the financial statements. This included a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- Evaluate progress in implementing prior audit recommendations.

Audit Results and Summary of Major Audit Findings

Our report, dated October 9, 2006, on the Colorado State Fair Authority's June 30, 2006 financial statements includes an explanatory paragraph that describes a going concern uncertainty. The Authority incurred a loss before capital contributions of $(1,295,568) and change in net assets of $(746,056) during the year ended June 30, 2006 also as of that date, the Authority's current liabilities exceeded its current assets by $3,333,488 and it had deficit unrestricted net assets of $(2,425,956).

We issued a report on the Colorado State Fair Authority's internal control over financial reporting and compliance with other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We noted three matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. One of the reportable conditions is considered to be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low risk that misstatements caused by error or fraud in amounts that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Required Auditor Communications to the Legislative Audit Committee

An independent auditor is required to communicate to the Audit Committee certain matters related to the conduct of the audit and to ensure that the Audit Committee receives additional information regarding the scope and results of the audit that may assist the Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items that no audit adjustments were required and that one significant difficulty encountered in dealing with management in performing our audit was the length of time it took for the Authority to provide us with information and to respond to our questions. This significantly delayed the completion of the audit.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The following is a summary of the findings contained in the report. The audit recommendations for these findings and associated Authority responses are summarized in the recommendation locator, which follows the summary.

There are 6 current year findings and recommendations:

- The Authority's enterprise fund has sustained operating losses for a number of years that have required continued State subsidization. House Bill 06-1384 will provide funding to pay off the debt to the State Treasury and the loan for the Events Center as well as provide $550,000 of operating funds per year, although it is possible that the Authority will continue to operate at a loss. We recommend that the Authority continue to refine its strategies and pricing policies and also search for efficiencies in their operations to minimize future losses.
- The Authority currently is not performing monthly reconciliations of certain accounting records. We recommend that the Authority perform timely monthly reconciliations of accounting records to ensure errors, misallocations and omissions do not exist in the accounting records.
- The Authority's controls over remittances received in the mail do not include a procedure requiring the preparation of a detailed listing of remittances that is ultimately compared to the deposit. The Authority should implement such a procedure to mitigate the risk of misappropriation of assets.
- The Authority currently does not have a comprehensive written accounting policies and procedures manual. We recommend that the Authority develop a comprehensive accounting policies and procedures manual.
- The Authority was not able to provide the auditors with the bond documents for the bonds outstanding as of June 30, 2006. We recommend that the Authority locate the bond documents and periodically review the documents to ensure compliance with the designated bond covenants.
- The Authority did not provide adequate documentation to support all of the in-kind support revenue and expense. We recommend that the Authority maintain sufficient documentation to support all amounts recorded as in-kind support.

Recommendations and Authority Responses

A summary of the recommendations for the above comments is included in the Recommendation Locator included at the end of this summary. The Recommendation Locator also shows the Authority's responses to the audit recommendations. A detailed description of the audit comments and recommendations is contained in the findings and recommendations section of the report.

Summary of Progress in Implementing Prior Audit Findings

There were five recommendations made in the prior year audit. Two recommendations were implemented, two recommendations were partially implemented and one recommendation was not implemented. Detailed descriptions and the dispositions are contained in the disposition of prior year audit recommendations.

RECOMMENDATION LOCATOR

All recommendations are addressed to the Colorado State Fair Authority Fiscal Year 2006

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	6	Continue to refine strategies and pricing policies and also search for efficiencies in operations to minimize future losses.	Agree	Ongoing
2	8	Perform timely monthly reconciliations of accounting records to ensure accuracy in reporting and minimize errors, misallocations and omissions.	Agree	July 1, 2007
3	9	Implement internal controls over remittances received by mail to mitigate the risk of misappropriation of assets.	Disagree	None provided
4	9	Develop a comprehensive accounting policies and procedures manual.	Agree	July 1, 2007
5	10	Locate a set of the bond documents and monitor compliance with the requirements of the bond covenants.	Agree	July 1, 2007
6	10	Maintain sufficient documentation to support in-kind contributions.	Agree	Immediately

BACKGROUND

The Colorado State Fair has been in existence for over 125 years. Over the years, the Colorado State Fair has undergone a number of organizational changes. In 1983, the General Assembly created the Colorado State Fair Authority (Authority) as a separate political subdivision of the State. House Bill 97-1342 abolished the existing Authority and its Board of Commissioners and created the new Colorado State Fair Authority as a division within the State Department of Agriculture effective June 30, 1997. The current Board of Commissioners consists of eleven members. Of the eleven members, one member must be a certified public accountant, one member must have current management-level banking experience and expertise in finance, and one member must have agriculture or 4-H club experience. The Commissioner of Agriculture or the Commissioner's designee also serves as a voting member of the Board.

The Authority operates on the State Fairgrounds in Pueblo on approximately 80 acres of land. The grounds and facilities are owned by the State and include exhibition halls, four permanent restaurants, permanent stalls for horse shows, three 4-H buildings, an amphitheater, six pavilions, and a covered grandstand. The facilities also include an indoor arena (the Events Center) which was constructed at a cost of approximately $7.5 million. The Events Center began operating in 1995. Most of the Authority's revenue is generated during the annual State Fair from admissions, parking, food and beverage sales, concessions, commercial space rental, sponsorships, and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis at the Events Center and other facilities on the State Fairgrounds. For Fiscal Year 2006, the Authority was appropriated 20 full-time staff plus contract employees to run its year-round operations. In the summer, the Authority adds about 800 temporary staff to run the annual State Fair.

FISCAL YEAR 2006 FINANCIAL HIGHLIGHTS

The following presents a summarized statement of revenues, expenses and changes in fund net assets of the Authority broken down between Fair-time and Off-season periods. The breakdown between Fair-time and Off-season periods is provided by the Colorado State Fair Authority and has not been audited.

	Year ended June 30, 2006 Fair-time*	Year ended June 30, 2006 Off-season	Year ended June 30, 2006 Total	Year ended June 30, 2005 Total
Operating revenues	$ 5,976,384	$ 789,677	$ 6,766,061	$ 7,360,522
Operating expenses (excluding depreciation)	5,193,346	2,740,710	7,934,056	8,097,883
Operating income (loss) before depreciation	$ 783,038	$ (1,951,033)	(1,167,995)	(737,361)
Depreciation			(580,746)	(613,727)
Operating loss			(1,748,741)	(1,351,088)
Nonoperating revenues (net)			453,173	330,885
Loss before state capital contributions			(1,295,568)	(1,020,203)
Capital contributions			549,512	77,352
Change in net assets			$ (746,056)	$ (942,851)

*Fair held during August/September 2005. Included in the breakdown is approximately 75% of governance and administration and facilities management expenditures for July, August and September to Fair-time activity.

The 2006 State Fair (held August/September 2006) results will be included in the financial statements for the year ended June 30, 2007.

The Authority experienced a net operating cash outflow of $863,057and $1,227,934, respectively, for the years ended June 30, 2006 and 2005.

The loss for the year ended June 30, 2006 resulted in a negative change in net assets of $1,295,568 before capital contributions.

Five-Year Business Plan

The Authority's enterprise fund has incurred operating losses for several years. Specifically, the Authority has incurred losses and subsidization from the State as follows:

For Fiscal Year Ended	Operating Loss Including Depreciation and Amortization	Operating Loss Excluding Depreciation and Amortization	Total State Contributions	Local Contributions
June 30, 2006	$ (1,748,741)	$ (1,167,995)	$ 812,924	$ 347,997
June 30, 2005	(1,351,088)	(737,361)	77,352	441,757
June 30, 2004	(1,255,087)	(639,851)	109,674	228,734
June 30, 2003	(1,175,019)	(574,770)	577,685	458,012
June 30, 2002	(1,104,553)	(397,826)	3,480,328	545,147

In October of 2006 the board approved a five-year business plan. First, the business plan continued the reduced number of days of Fair operation from a 16 day Fair to an 11 day Fair, which was started for the fiscal year ended June 30, 2005. The Authority hopes to improve the quality of the Fair with better attractions in fewer days. Second, the business plan is to increase revenue by hiring an entertainment and venue management company to assist in marketing the Events Center. Third, the plan cites HB 06-1384 which will provide sufficient funds to payoff a loan with the State Treasury in the amount estimated at $2.1 million, payoff a loan on construction of the Events Center for $1.4 million and provide $550,000 per year for operating expenses.

For June 30, 2005 the auditors recommended that the Authority should update its five-year plan and refine its strategies and pricing policies in order to minimize the amount of required future subsidization by the State. Based on the updated five-year plan, the Authority will continue to rely on State subsidization for at least the next five years. Although the State has committed funding to the Authority, the Authority reports that it may continue to experience cash flow problems based on projections. Historically, since fiscal year 2003, the aforementioned $550,000 per year would not be enough to cover the operating loss excluding depreciation and amortization.

RECOMMENDATION NO. 1

The Authority should continue to refine its strategies and pricing policies and also search for efficiencies in its operations to minimize future losses.

Colorado State Fair Authority Response:

Agree. The Colorado State Fair Authority annually reviews pricing policies on Fair and Non-Fair events. The Authority will continue to accommodate this with the goal of enhancing revenues for the enterprise. Additionally, the Authority looks to capture efficiencies in operating efforts while ensuring effective program delivery. Some cost increases are outside of the Authority's control, though, such as the minimum wage increase which was accommodated by a statewide ballot, during the last election. The implementation of this recommendation is ongoing.

The Authority, also, recognizes and appreciates the state support granted through HB 06-1384. This bill is providing the resources for the Authority to fully pay off the Treasurer's Office loan and the debt owed on the Event Center. Once these two debts are paid off, this bill will provide $550,000 annually to help offset annual operating losses. The Authority believes that the $550,000 will not be sufficient to cover out-year (once all debt is paid off) operating losses. The Fair will work with the Governor's Office and the legislature to craft a mutually agreeable plan that provides the appropriate state support to cover forecasted operating losses. This could be accommodated through special legislation during 2008 or during the FY 09 budget process.

Reconciliation of Accounting Records

We believe these control deficiencies represent a material weakness in internal control over financial reporting. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cash Accounts

While performing audit procedures with respect to the Authority's bank accounts, we noted that the Authority had not prepared accurate and complete bank reconciliations during the fiscal year ended June 30, 2006. The Authority could not provide to the auditor a detailed listing of outstanding checks and deposits to support the bank reconciliations for the three bank accounts maintained directly by the Authority. The average balance of these three accounts is approximately $16,000. Once the auditors asked the Authority for the detailed listing the Authority accountant created the list and subsequently provided the list to the auditors, although the listing was not complete. The listing did not include outstanding items prior to the beginning of the 2006 fiscal year. The total of the difference between the total outstanding checks being used on the bank reconciliation and the created outstanding check list for the three accounts amounted to $1,507.

The outstanding checklist is an integral part of reconciling the bank accounts to the accounting records. Errors and irregularities can occur and go undetected if a proper process is not in place to create an accurate outstanding deposit and check list.

Inter-fund Receivable Account

During our audit we noted that the inter-fund receivable account is not reconciled and the Authority was not able to provide us with information to support the balance. The Authority's inter-fund receivable account is used to record cash and credit card receipts until they are deposited and recorded into the operating bank account. The balance of this inter-fund receivable account was $50,839 as of June 30, 2006.

Monthly reconciliations of the inter-fund accounts receivable will assist to ensure that all cash and credit card receipts are being deposited into the operating bank account.

Accounts Payable Account

During our audit we noted that the Authority is not able to provide an accounts payable subsidiary ledger that lists all accounts payable owed to its vendors. As a result, a monthly reconciliation is not performed to reconcile the accounts payable balance in the general ledger.

Revenue Accounts

While performing audit procedures with respect to the Authority's revenue accounts, we noted that the departmental revenue schedules from the Authority's departments are not formally reconciled to the general ledger accounts. Currently the Authority is reviewing the schedules but a formal reconciliation on a timely basis is not being performed.

Monthly reconciliations between all departmental schedules and the general ledger will assist to ensure records are accurate and minimize the need for year end adjustments.

This was also a finding in the Year Ended June 30, 2005.

RECOMMENDATION NO. 2

The Authority should perform timely monthly reconciliations of accounting records to ensure accuracy in reporting and minimize the risk of errors, irregularities, misallocations and omissions.

Colorado State Fair Authority Response:

Agree. The Authority is currently implementing processes to perform timely reconciliations. This recommendation will be fully implemented by July 1, 2007.

Controls over Cash Receipts

In performing audit procedures in the area of cash, we noted that cash receipts received through the mail are opened by the executive assistant, then manually transported across the Fairgrounds and delivered to the department heads for coding into the accounting system. After coding, the remittances are then transported back across the Fairgrounds to the accountant for deposit in the bank. However, the mail opener does not prepare a detail listing of receipts upon initial receipt of the cash. As a result, there is a risk of errors and irregularities going undetected. Cash receipts received through the mail are primarily payments for entry fees related to events, such as the horse show and livestock exhibits, fees and deposits for commercial exhibits, rental fees, and amounts received from the city lodging tax. The receipts are significant, averaging $50,000 to $100,000 a month during the off-season and $200,000 a month during Fair-time.

This was also a finding in the Year Ended June 30, 2005. The Authority disagreed with the recommendation because it believed it would be too costly to implement. However, controls over cash receipts are critical to ensuring state assets are safeguarded, and a hand-written listing of cash receipts can be maintained for little cost.

RECOMMENDATION NO. 3

The Authority should improve controls over cash receipts by requiring that the person opening the remittances to prepare a list documenting the payer, amount and check number for each remittance. After the deposit is made, an individual with neither record keeping or custody of assets responsibilities should compare the total deposit from the deposit slip to the total from the remittance listing to mitigate the risk that remittances are misappropriated.

Colorado State Fair Authority Response:

Disagree. This recommendation was an audit comment in last year's audit, which the Fair disagreed with at that time, as well. The Authority does not disagree with the increased internal controls that would be affected with the implementation of this recommendation. The Fair, however, disagrees with this recommendation due to the resources needed to accommodate and balancing increased costs against the benefit of this internal control. The Authority recognizes that the $550,000 provided through HB 06-1384 in out-years (once all debt is paid off) may not be enough to offset annual operating losses. The Authority needs to balance increasing internal controls against the resources necessary to accommodate. At this time, the Authority does not feel increasing costs is appropriate balanced against this recommendation.

Auditor Addendum: Establishing basic controls to minimize the risk of fraud is essential to any well managed accounting operation. At a minimum, a handwritten list of receipts could be maintained for little cost.

Accounting Policies and Procedures Manual

The Accounting Office does not have a comprehensive written policies and procedures manual. Such a manual is necessary to document accounting policies and procedures, provide consistent guidance and reinforcement of job duties to current employees, and assist in training new employees on procedures to be followed. Among other things, a comprehensive manual, should address the accounting cycles and the process to accurately record and reconcile certain general ledger accounts, segregation of duties, and due dates for reporting purposes. A written manual should prevent tasks from being overlooked or not performed in a timely manner.

RECOMMENDATION NO. 4

The Authority should develop a comprehensive accounting policies and procedures manual.

Colorado State Fair Authority Response:

Agree. The Authority expects to have this recommendation fully implemented by July 1, 2007.

Bond Documents

The Authority has a refunding revenue bond obligation with a balance due of $1,270,580 as of June 30, 2006. During the audit, the Authority did not provide bond documents to the auditors when requested. Four months after requesting the information the auditors were able to obtain the necessary bond documents from an outside source.

The bonds represent a legal debt owed by the Authority, and the Authority is required to monitor compliance with bond covenants on an ongoing basis until the bonds mature. Therefore it is important for management to maintain and have access to the documents on a regular basis. The Authority was in violation of one of its bond covenants as of June 30, 2006.

RECOMMENDATION NO. 5

The Authority should locate and maintain the complete bond documents. Periodically the Authority's management should review these documents and monitor requirements to ensure the Authority is in compliance with the designated bond covenants.

Colorado State Fair Authority Response:

Agree. The Authority recognizes that the current firm auditing the Authority and the previous auditing firm are in possession of copies of excerpts of the bond documents. The Authority has requested a copy. Additionally, the Authority will review the covenants and ensure compliance with the covenants. This recommendation will be implemented by July 1, 2007.

Insufficient In-kind Documentation

During our audit we noted that during fiscal year ended June 30, 2006 the Authority had recorded $766,197 of in-kind support. Examples of in-kind support are air time provided by local news and radio stations, equipment provided by equipment dealers, and medical services. However during testing we noted that the Authority had not maintained sufficient documentation to support all of the in-kind support recorded. An example of sufficient documentation would be a signed, dated letter or invoice from the vendor providing the in-kind service, stating the support or service being provided, including the corresponding market value fee for this service.

RECOMMENDATION NO. 6

The Authority should maintain sufficient documentation to support all amounts recorded as in-kind support.

Colorado State Fair Authority Response:

Agree. Although the Authority currently obtains signed and dated agreements from all sponsors including "in-kind" that identifies goods and services being provided with the sponsor's valuation of those goods and services the Authority recognizes that more documentation would be better. An itemized invoice will be requested when possible and will be kept on file. This recommendation will be implemented immediately.

Disposition of Prior Audit Recommendations

Listed below are the recommendations from the Fiscal Year 2005 Colorado State Fair Authority Financial and Compliance audit.

Recommendation	Disposition
1. The Authority should update its five-year business plan and refine its strategies and pricing policies in order to minimize the amount of required future subsidization by the State.	Partially implemented. See current year recommendation No. 1.
2. The Authority should monitor the bond covenant detail to ensure compliance by making timely monthly transfers to the bond fund to ensure the balance in the bond fund is equal to or greater than the required monthly deposits.	Implemented.
3. The Authority should perform a detailed review of the fixed asset detail for accuracy and consistency in assigning useful lives and in matching asset deletions against the original asset in the detail and make any necessary corrections.	Implemented.
4. The Authority should assign an individual at the management level to perform timely monthly reconciliations of departmental schedules to the general ledger to ensure errors, misallocations and omissions do not exist in the accounting records.	Partially implemented. See current year recommendation No. 2.
5. The Authority should improve controls over cash receipts by requiring that the person opening the remittances prepare a list documenting the payer, amount and check number for each remittance. After the deposit is made, an individual with neither record keeping or custody of assets responsibilities should compare the total deposit from the deposit slip to the total from the remittance listing to mitigate the risk that remittances are misappropriated.	The Authority did not agree with the recommendation and did not implement it. However, due to the risk that state assets could be misappropriated because of the lack of controls in this area, this recommendation is being repeated. See current year recommendation No. 3.

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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business type activities of the Colorado State Fair Authority (the Authority), a division of the State Department of Agriculture (the Department) of the State of Colorado, as of June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of June 30, 2005, were audited by other auditors whose report dated October 31, 2005, on those statements included an explanatory paragraph describing conditions that raised substantial doubt about the Authority's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2006, and 2005, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 2, the Authority incurred a loss before capital contributions of ($1,295,568) and change in net assets of ($746,056) during the year ended June 30, 2006, and as of that date, the Authority's current liabilities exceeded its current assets by $3,333,488 and it had deficit unrestricted net assets of ($2,425,956).

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 14 through 19 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

October 9, 2006

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006 and 2005

This discussion and analysis of the Colorado State Fair Authority's financial performance is a required component of financial reporting under governmental accounting standards and was prepared by Colorado State Fair Authority Management. It provides an overview of financial activities for the year ended June 30, 2006 and should be read in conjunction with the Authority's financial statements, which begin on page 20. These financial statements reflect only activities of the Colorado State Fair Authority, a division of the State Department of Agriculture of the State of Colorado.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The only fund of the Authority is its proprietary fund.

Proprietary fund. The Authority maintains one proprietary fund, an enterprise fund. The Authority uses its enterprise fund to account for its Fair activities and Non-Fair activities conducted on the Fairgrounds.

The basic proprietary fund financial statements can be found on pages 20 through 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 24 through 36 of this report.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority's enterprise fund, assets exceeded liabilities by $6,833,443 at the close of the most recent fiscal year.

The following schedule provides a condensed statement of net assets as of June 30, 2006, 2005 and 2004.

Schedule of Net Assets

	June 30		
	2006	2005	2004
Current assets	$ 582,019	$ 632,224	$ 979,040
Other assets	29,525	33,743	40,461
Capital assets	10,405,973	10,376,908	10,787,934
Total assets	11,017,517	11,042,875	11,807,435
Current liabilities	3,915,507	3,184,194	1,545,866
Non-current liabilities	268,567	279,182	1,739,219
Total liabilities	4,184,074	3,463,376	3,285,085
Net assets:			
Invested in capital assets, net of related debt	9,071,645	8,855,876	9,025,043
Restricted	187,754	231,827	246,240
Unrestricted (deficit)	(2,425,956)	(1,508,204)	(748,933)
Total net assets	$ 6,833,443	$ 7,579,499	$ 8,522,350

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006 and 2005

2006

The largest portion of the Authority's net assets (133 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to operate the State Fair and Non-Fair activities held on the premises; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional $187,754 (2.7 percent) of the Authority's net assets as of June 30, 2006 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $2,425,956, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the Fiscal Year 2006, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets.

The Authority's net assets decreased by $746,056 during the current fiscal year.

As of June 30, 2006, the entire amount of principal outstanding on the Authority's refunding revenue bonds was classified as a current liability because the Authority was in violation of a debt covenant (note 6 to the accompanying statements).

2005

By far the largest portion of the Authority's net assets (117 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding.

An additional portion (3 percent) of the Authority's net assets as of June 30, 2005 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $1,508,204, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the current fiscal year, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets. The negative balance increased $759,271 from June 30, 2004.

The Authority's net assets decreased by $942,851 during the current fiscal year. This decrease primarily relates to the decline in charges for services earned for box office entertainment and attractions.

As of June 30, 2005, the entire amount of principal outstanding on the Authority's refunding revenue bonds was classified as a current liability because the Authority was in violation of a debt covenant (note 6 to the accompanying statements). As of June 30, 2004, the Authority was not in violation of the covenant and the principal was classified according to the bond repayment terms. Additionally, the

Authority implemented cost center accounting and budgeting, whereby expenditures and revenues were booked to established cost centers. Revenues and expenditures are now tracked by month, by cost center, and by Fair time or Non-Fair time. This improvement has provided the Board and management with better financial tools for decision making.

2004

By far the largest portion of the Authority's net assets (106 percent) reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to operate the State Fair and Non-Fair activities held on the premises; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion (3 percent) of the Authority's net assets as of June 30, 2004 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a negative $748,933, which indicates that over time the State Fair's expenses have exceeded its revenue.

At the end of the fiscal year, the Authority reported positive balances in the investment in capital assets net of related debt and restricted net assets, but was left with a negative balance in unrestricted net assets. The negative balance decreased $8,615 from June 30, 2003.

The Authority's net assets decreased by $299,599 during the fiscal year. This decrease primarily relates to the decline in charges for services earned for box office entertainment and attractions.

As of June 30, 2003, the entire amount of principal outstanding on the Authority's refunding revenue bonds was classified as a current liability because the Authority was in violation of a debt covenant. As of June 30, 2004, the Authority was not in violation of the covenant and the principal is classified according to the bond repayment terms.

Colorado State Fair Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006 and 2005

Schedule of Changes in Fund Net Assets

Year ended June 30

	FY 06	FY 05	FY 04
Operating revenues:			
Commercial space/concession	$ 1,226,772	$ 1,279,606	$ 1,392,468
Gate admissions	1,888,427	2,047,689	1,920,765
Box office sales	1,441,935	1,640,820	1,613,597
Private sponsorships	1,099,135	1,260,883	1,036,217
Exhibitor fees	484,134	544,136	720,561
Building rentals	516,018	447,321	520,308
Miscellaneous revenues	109,640	140,067	110,766
Total operating revenues	6,766,061	7,360,522	7,314,682
Operating expenses:			
Personal service and benefits	1,715,215	1,792,256	1,761,695
Entertainment and attractions	1,737,581	1,933,650	1,868,206
Advertising and promotions	1,293,836	1,236,988	1,126,476
Prizes and awards	677,824	686,297	645,836
Depreciation	580,746	613,727	615,236
Other	2,509,600	2,448,692	2,552,320
Total operating expenses	8,514,802	8,711,610	8,569,769
Operating loss	(1,748,741)	(1,351,088)	(1,255,087)
Nonoperating revenues (expenses):			
Federal grants	-	-	785,000
Local government grants	347,997	441,757	228,734
Unclaimed property fund interest income	263,412	-	-
Private donations	13,091	24,601	3,000
Investment income (loss)	4,504	11,715	(15,057)
Interest expense	(175,831)	(147,188)	(155,863)
Net nonoperating revenue	453,173	330,885	845,814
Decrease in net assets before State capital contributions	(1,295,568)	(1,020,203)	(409,273)
State capital contributions	549,512	77,352	109,674
Change in net assets	$ (746,056)	$ (942,851)	$ (299,599)

For the Year Ended June 30, 2006 net assets decreased by $746,056. Key elements of this decrease are as follows:

- State capital contributions increased net assets by $549,512. Additionally, the Fair received $263,412 of Unclaimed Property revenue. These two contributions helped reduce the decrease in net assets to $746,056.
- With the exception of building rentals, the Fair witnessed decreases in all operating revenue categories compared to FY 05.

Total expenses (operating expenses plus interest expense) for the current year decreased by $168,165 (2.3 percent).

For the Year Ended June 30, 2005 net assets decreased by $942,851. Key elements of this decrease are as follows:

- State capital contributions increased net assets by $77,352, thereby reducing the decrease in net assets to $942,851. The Authority had a decrease in net assets of $1,020,203 before State capital contributions. The decrease of $1,020,203 reflects the State Fair Authority's losses prior to the State capital contributions.
- The Authority witnessed increases in Gate Admission, Box Office Sales, and Private Sponsorships.
- Local grants to the Authority for operating expenses increased by $213,023 over the prior year.

Total expenses (operating expenses plus interest expense) for the current year increased by $133,166 (1.6 percent).

For the Year Ended June 30, 2004 net assets decreased by $299,599. Key elements of this decrease are as follows:

- State capital contributions increased net assets by $109,674, thereby reducing the decrease in net assets to $299,599. The Authority had a decrease in net assets of $409,273 before State capital contributions. The decrease of $409,273 reflects the State Fair Authority's losses prior to the State capital contributions.
- Charges for services decreased by $52,765 (0.7 percent) from the prior year. Most of this decrease is the result of a decrease in gate admissions of $124,831 (9.5 percent decrease in gate admissions) for the year from the prior year.
- The Authority received a one-time federal grant of $785,000 which was used for projects and operations for the year.
- Local grants to the Authority for operating expenses decreased by $229,278 over the prior year.

Total expenses (operating expenses plus interest expense) for the current year increased by $30,924 (0.4 percent).

BUDGETARY HIGHLIGHTS

The Authority's budget is determined by a variety of methods. The majority of the budget is set by the annual appropriations bill (called the Long Bill—enacted by the General Assembly and signed by the Governor), which determines budgets for every agency within the State. The Long Bill and centrally appropriated funds are approved shortly before the start of each fiscal year. Agencies may also request a supplemental appropriation during the fiscal year to cover unexpected expenses as well as year-end transfers of spending authority, if needed. The final method of funding is special legislation.

The approved original and final budget for the Authority's activities was cash spending authority appropriation of $8,146,387. The budgetary amount includes the Colorado State Fair Program Line Item and the budget allocations for the Fair's portion of Risk Management and Worker's Compensation insurances. Total revenues including local government grants and interest were $7,219,234 and total expenses on a budgetary basis were $7,413,308, or $194,074 above revenues.

Total operating expenses (GAAP basis)	$	8,514,802
Plus interest expense		175,831
Less depreciation		(580,746)
Less nonbudgeted item (compensated absences)		9,319
Plus capital outlay		60,299
Less In-Kind Match		(766,197)
Plus nonbudgeted item (adjustment)		-
Total expenses (budgetary basis)	$	7,413,308

FUTURE OUTLOOK

On June 5, 2006 House Bill 1384 was passed by the State Legislature which will provide valuable financial assistance to the Authority. The financial assistance will provide the Authority with funding to payoff the debt to the State Treasury in the amount estimated at $2.1 million and to pay a loan on the construction of the Events Center in the amount of $1.4 million. It also will provide the Authority with $550,000 per year for operations. It is projected that the State Treasury will be paid off in FY 2007 and the bonds will be paid off in FY 2008.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This management's discussion and analysis (MD&A) is designed to provide Colorado citizens, Colorado government officials, our sponsors, customers and other interested parties with a general overview of the Authority's financial activity for Fiscal Year 2006 and to demonstrate the Authority's accountability for its use of State resources. If you have questions about the MD&A or need additional information, contact the Department of Agriculture Administrative Services, 700 Kipling Street, Suite 4000, Lakewood, Colorado 80215-8000.

COLORADO STATE FAIR AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets		
Unrestricted assets		
Cash and cash equivalents	$ 100,051	$ 105,017
Accounts receivable, net of allowance for doubtful accounts	80,217	68,824
Due from local governments	9,532	57,808
Inventory	36,848	37,206
Prepaid expenses	167,617	131,542
Total unrestricted assets	394,265	400,397
Restricted assets		
Bond fund	33,832	81,912
Reserve fund	153,922	149,915
Total restricted assets	187,754	231,827
Total current assets	582,019	632,224
Noncurrent assets		
Capital assets, net of accumulated depreciation	10,405,973	10,376,908
Unamortized financing costs	29,525	33,743
Total noncurrent assets	10,435,498	10,410,651
TOTAL ASSETS	11,017,517	11,042,875
LIABILITIES		
Current liabilities		
Due to State Treasury	1,514,802	905,040
Current portion of bonds and capital lease obligations	1,296,877	1,460,888
Accounts payable	277,825	114,857
Accrued interest payable	7,882	9,796
Deferred revenue	797,441	687,897
Other current liabilities	20,680	5,716
Total current liabilities	3,915,507	3,184,194
Noncurrent liabilities		
Accrued compensated absences	231,116	219,038
Capital lease obligations payable	37,451	60,144
Total noncurrent liabilities	268,567	279,182
TOTAL LIABILITIES	4,184,074	3,463,376
NET ASSETS		
Invested in capital assets, net of related debt	9,071,645	8,855,876
Restricted for:		
Debt service	187,754	231,827
Unrestricted (deficit)	(2,425,956)	(1,508,204)
TOTAL NET ASSETS	$ 6,833,443	$ 7,579,499

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Commercial space/concessions	$ 1,226,772	$ 1,279,606
Gate admissions	1,888,427	2,047,689
Box office sales	1,441,935	1,640,820
Private sponsorships	1,099,135	1,260,883
Exhibitor fees	484,134	544,136
Building rentals	516,018	447,321
Miscellaneous revenue	109,640	140,067
Total operating revenues	6,766,061	7,360,522
OPERATING EXPENSES		
Personal service and benefits	1,715,215	1,792,257
Entertainment and attractions	1,737,581	1,933,650
Advertising and promotions	1,293,836	1,236,988
Prizes and awards	677,824	686,297
Repairs and maintenance	383,578	291,238
Utilities	695,719	605,986
Supplies and materials	277,041	322,246
Contractual services	580,506	623,977
Other operating	293,225	322,313
Building, vehicle and equipment rental	235,170	249,404
Travel	44,361	33,527
Depreciation	580,746	613,727
Total operating expenses	8,514,802	8,711,610
Operating loss	(1,748,741)	(1,351,088)
NONOPERATING REVENUES (EXPENSES)		
Private donations	13,091	24,601
Unclaimed property fund interest income	263,412	-
Local government grants	347,997	441,757
Investment income (loss)	4,504	11,715
Interest expense	(175,831)	(147,188)
Total nonoperating revenues (expenses)	453,173	330,885
Loss before state capital contributions	(1,295,568)	(1,020,203)
Capital contributions	549,512	77,352
Change in net assets	(746,056)	(942,851)
Net assets, beginning of year	7,579,499	8,522,350
Net assets, end of year	$ 6,833,443	$ 7,579,499

The accompanying notes are an integral part of these statements.

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF CASH FLOWS
June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from fees for services	$ 6,286,830	$ 5,132,708
Cash received from sale of products	-	51,051
Cash received from rental of property	516,018	450,237
Cash received from other sources	109,640	539,072
Cash paid to employees	(1,703,137)	(1,787,263)
Cash paid to suppliers	(5,135,256)	(4,840,090)
Cash paid to others	(937,152)	(773,649)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(863,057)	(1,227,934)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Decrease in restricted assets	44,073	9,840
Local governmental grants	549,512	171,757
Debt service principal payments	(186,704)	(236,720)
Interest payments	(177,745)	(144,174)
Purchase of property and equipment	(609,811)	(140,854)
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(380,675)	(340,151)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Local governmental grants	347,997	212,192
State revenue	263,412	-
Proceeds from issuance of loan from State Treasurer	609,762	905,040
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	1,221,171	1,117,232
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividend income	4,504	19,019
Change in Colotrust fair value	-	(2,731)
Private donations	13,091	24,601
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	17,595	40,889
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,966)	(409,964)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	105,017	514,981
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 100,051	$ 105,017

COLORADO STATE FAIR AUTHORITY
STATEMENTS OF CASH FLOWS
June 30, 2006 and 2005

	2006	2005
OPERATING LOSS	$ (1,748,741)	$ (1,351,088)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	580,746	613,727
Amortization of bonds	4,218	-
Loss on disposal of fixed assets	-	10,367
(Increase) decrease in accounts receivable	(11,393)	(22,771)
(Increase) decrease in due from others	48,276	-
(Increase) decrease in inventory	358	(17,886)
(Increase) decrease in prepaid expenses	(36,075)	20,905
Increase (decrease) in accounts payable	162,968	(43,309)
Increase (decrease) in compensated absences	12,078	4,993
Increase (decrease) in other payables	14,964	2,916
Increase (decrease) in deferred revenue	109,544	(445,788)
Total adjustments	885,684	123,154
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (863,057)	$ (1,227,934)
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment added through contributed capital	$ 549,512	$ 77,352
Unrealized loss on restricted assets	-	(4,573)
Property and equipment written off due to obsolescence	-	(58,729)
Property and equipment written off per compliance with capitalization policy	-	(91,232)
Capital lease obligation written off per compliance with capitalization policy	-	(5,138)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Colorado State Fair Authority (Authority) is a division of the State Department of Agriculture of the State of Colorado (Department). It operates under the jurisdiction of the Colorado State Fair Authority Board of Commissioners (Board) whose members are appointed by the Governor of the State. The financial statements of the Authority are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the Department that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2006 and 2005, and changes in its financial position and its cash flows, where applicable, for the years ended in conformity with accounting principles generally accepted in the United States of America.

The Authority operates on the state fairgrounds in Pueblo, Colorado. The grounds and facilities include exhibition halls, four permanent restaurants, permanent stalls for horse shows, three 4-H buildings, an amphitheater, six pavilions, a covered grandstand, and an indoor arena. Most of the Authority's revenue is generated during the annual Colorado State Fair and Exposition (State Fair) from admissions, parking, food and beverage concessions, commercial space rental, sponsorships and carnival ticket sales. Additional revenue is generated from events that are held on a year-round basis in the indoor arena and other facilities on the state fairgrounds.

The duration of the 2006 and 2005 Colorado State Fair was reduced to eleven days in contrast to the sixteen day duration in previous years.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the more significant policies.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are from operating the Colorado State Fair and Exposition and hosting other off-season events. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Process

The financial operations of the Authority are controlled by an annual appropriation made by the Colorado General Assembly and signed into law by the Governor as part of the annual Long Appropriations Act or other special bill.

For Fiscal Year 2006, the Authority's original and final budget as approved by the General Assembly was $8,098,598. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual. For fiscal year 2005, the Authority's original and final operating budget as approved by the General Assembly was $8,136,957. The Authority allocated the final budget to cover operating expenses, excluding depreciation and change in leave accrual.

The Authority also adopts an internal budget for its enterprise fund for management purposes. For Fiscal Year Ended June 30, 2006, the internal budget showed total budgeted operating revenues of $8,406,010. Total actual operating revenues were $6,766,061, and total revenue including operating revenues, local government grants, private donations and interest were $7,395,065. Total allocated budgeted operating expenses were $7,263,315 while total actual operating expenses were $7,413,308, on a budgetary basis. The Authority spent $194,073 under actual revenues.

For Fiscal Year Ended June 30, 2005, the internal budget showed total budgeted operating revenues of $8,136,957. Total actual operating revenues were $7,360,522 and total revenue including operating revenues, local government grants, private donations and interest were $7,838,595. Total allocated budgeted operating expenses were $8,136,957 while total actual operating expenses were $7,583,218, on budgetary basis. The Authority spent $255,377 under actual revenues.

	2006	2005
Total operating expenses (GAAP basis)	$ 8,514,802	$ 8,711,610
Plus interest expense	175,831	147,188
Less depreciation	(580,746)	(613,727)
Less nonbudgeted item (compensated absences)	9,319	(12,518)
Less in-kind match	(766,197)	(719,371)
Nonbudgeted item (adjustment) - other	-	49,218
Plus capital outlay (budgeted)	60,299	20,818
Total expenses (budgetary basis)	$ 7,413,308	$ 7,583,218

Accounts Receivable

Accounts receivable is comprised principally of amounts due for use of the Authority's facilities from organizations and individuals and is stated net of any allowance for amounts estimated to be uncollectible.

Inventory

Inventory, consisting of facilities maintenance supplies, concession supplies and souvenirs, is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as equipment with an initial, individual cost of more that $5,000 and an estimated useful life in excess of one year plus computer equipment and buildings and land improvements with an initial cost of more than $50,000. Such assets are recorded at historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materiality extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized when projects are materially complete. Streets, sidewalks, and water and drainage systems located on the fairgrounds are recorded as land improvements.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Estimated Lives
Buildings (transferred from state)	20 Years
Buildings (constructed)	40 Years
Land Improvements (streets, sidewalks, and water drainage systems)	50 Years
Land improvements (other)	16-20 Years
Furniture and equipment	3-10 Years

Deferred Revenue

Deferred revenue represents cash received by the Authority in advance of the related revenue being earned by the Authority. Deferred revenue is comprised principally of cash received for events and activities at the Fair that are held after the Authority's fiscal year end.

Accrued Compensated Absences Liability

Effective July 1, 1988, all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988, plus 360 additional hours. Annual leave is earned on an annual basis, with the amount varying between 10 and 21 days per year depending on the level of, and number of years of continuous service provided by the employee. Annual leave rights are vested after one year of continuous service and the accumulation of annual leave is limited to 42 days at the end of the fiscal year. The compensated absences liability accrual is recorded as a liability.

Statement of Cash Flows

For the purpose of the statement of cash flows, the Authority considers unrestricted, highly liquid temporary investments maturing within three months of the acquisition to be cash equivalents.

Reclassifications

Certain financial information for the year ended June 30, 2005 has been reclassified to conform with the presentation for the current year.

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Authority as a going concern. However, the Authority has a loss before capital contributions of ($1,295,568) and ($1,020,203) and change in net assets of ($746,056) and ($942,851) for the years ended June 30, 2006 and 2005, respectively. In addition, the Authority has negative working capital balances of $3,333,488 and $2,551,970 as of June 30, 2006 and 2005, respectively. As of June 30, 2006, the Authority was not in compliance with a bond covenant requiring general operating revenue to exceed general operating expenses, as defined in the bond document, plus 125% of the annual principal plus interest payment and including any required credit to the Reserve Fund and the Rebate Fund.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net assets is dependent upon continued operations of the Authority, which in turn is dependent upon the Authority's ability to meet its financial requirements on a continuing basis, to continue to receive subsidizations from the State of Colorado and to succeed in future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Authority be unable to continue in existence.

The State of Colorado has passed House Bill 06-1384 which will provide funding to pay off debt to the State Treasury and the construction loan for the Events Center as well as provide $550,000 of operating funds per year. The Authority's management is also implementing a new marketing plan to assist in increasing Events Center use and attendance.

NOTE 3 CASH DEPOSITS

Cash

Cash includes petty cash, change funds, imprest funds and cash on deposit with the State Treasurer. Moneys deposited with the Treasury are invested until the cash is needed. The State Treasurer pools these deposits and invests them in securities approved by Section 24-75-601.1, C.R.S. The Authority reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool only at fiscal year end. Effective July 1, 1997, with the Authority's initial adoption of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices. The State Treasurer does not invest any of the value, which is determined based on quoted market prices. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Deposits

The Authority is authorized to deposit funds in bank accounts outside the custody if the Treasury. Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act (PDPA) in Section 11-10.5-107(5), C.R.S., requires all eligible depositories holding public deposits to pledge designated eligible collateral having market values at least 102 percent of the deposits exceeding those amounts insured by the federal insurance.

As of June 30, 2006, the Authority's deposits are as follows:

	Bank Balance	Carrying Balance
Cash on hand	$ -	$ 2,500
Deposits covered by depository insurance - Federal Insurance	98,367	97,551
Deposits collateralized under PDPA	-	-
Total Cash	$ 98,367	$ 100,051

As of June 30, 2005, the Authority's deposits are as follows:

	Bank Balance	Carrying Balance
Cash on hand	$ -	$ 2,600
Deposits covered by depository insurance - Federal Insurance	100,000	100,000
Deposits collateralized under PDPA	10,447	2,417
Total Cash	$ 110,447	$ 105,017

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under GASB 40, deposits collateralized under PDPA are deemed subject to custodial credit risk.

As of June 30, 2006 and 2005, the Authority was exposed to custodial credit risk in the amount of $0 and $10,447, respectively.

The Authority has no investments as of June 30, 2006 other than those discussed in Note 4.

NOTE 4 RESTRICTED ASSETS

In connection with the refunding revenue bonds issued in 1992 (Note 6), the Authority was required to establish a bond fund. The bond fund is comprised of monthly deposits sufficient to provide for the next maturing installments of bond principal and interest and for bond payments made in June and December of each year. The balance in the sinking fund at June 30, 2006 and 2005 was $33,832 and $81,912, respectively, and is invested in cash and money market accounts. These amounts are covered by depository insurance. As of July 1, 2006, the amount of funds in the bond fund was sufficient to meet the requirements of the bond resolution however, as of July 1, 2005, the funds were not. The fund was insufficient by $5,529 as of July 1, 2005.

The Authority was also required to establish a reserve fund to be used in the event of deficiencies in the bond fund. The balance in the reserve fund must be equal to the lesser of (i) 10% of the outstanding principal amount of the refunding revenue bonds, (ii) the maximum annual debt service requirement, as defined in the bond resolution, or (iii) 125% of the average amount of all required principal and interest payments which come due in any fiscal year. The Authority has complied with the reserve fund requirements for the years ended June 30, 2006 and 2005.

The Authority is also required to generate sufficient revenue to cover general operating expenses plus 125% of the annual requirements of principal and interest on the outstanding bonds. Gross operating revenues, as defined by the bond document, includes operating revenue and other revenue except amounts appropriated by the General Assembly of the State and designated for capital purposes or other purposes not including payment of general operating expenses or the payment of principal, interest or premiums on the bonds. The Authority was not in compliance with this requirement for the years ended June 30, 2006 and 2005.

The Authority had the following investments, recorded at market value, in the restricted bond reserve fund at June 30:

	2006	2005
Phoenix Money Market Fund	$ 153,922	$ 12,507
Federal Home Loan Mortgage Corporation Multiclass CMO (Monthly principal and interest payments CPN 5.5% due October 15, 2033, $138,884 cost basis)	$ -	$ 137,408

The Authority's investment in the money market fund is insured by depository insurance and the fixed income securities are issued by the federal government, both of which are investments allowed under State statue to be held by the Authority. The Authority recognized unrealized losses of $-0- and $4,573 on the investment during the years ended June 30, 2006 and 2005, respectively.

NOTE 5 CAPITAL ASSETS

At June 30, 2006, capital assets consisted of the following:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Capital assets not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	77,352	549,512	-	626,864
Total capital assets not being depreciated	671,810	549,512	-	1,221,322
Capital assets being depreciated				
Buildings	12,049,278	-	-	12,049,278
Land improvements	6,561,319	-	-	6,561,319
Furniture and equipment	2,033,888	60,299	-	2,094,187
Total capital assets being depreciated	20,644,485	60,299	-	20,704,784
Less accumulated depreciation for:				
Buildings	(7,160,898)	(312,403)	-	(7,473,301)
Land improvements	(1,886,744)	(215,136)	-	(2,101,880)
Furniture and equipment	(1,891,745)	(53,207)	-	(1,944,952)
Total accumulated depreciation	(10,939,387)	(580,746)	-	(11,520,133)
Total capital assets being depreciated, net	9,705,098	(520,447)	-	9,184,651
Capital assets, net	$ 10,376,908	$ 29,065	$ -	$ 10,405,973

Depreciation expense for the years ended June 30, 2006 and 2005 was $580,746 and $613,727, respectively.

At June 30, 2005, capital assets consisted of the following:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Capital assets not being depreciated				
Land	$ 594,458	$ -	$ -	$ 594,458
Construction in progress	-	77,352	-	77,352
Total capital assets not being depreciated	594,458	77,352	-	671,810
Capital assets being depreciated				
Buildings	12,086,940	-	(37,662)	12,049,278
Land improvements	6,430,130	131,189	-	6,561,319
Furniture and equipment	2,174,184	9,665	(149,961)	2,033,888
Total capital assets being depreciated	20,691,254	140,854	(187,623)	20,644,485
Less accumulated depreciation for:				
Buildings	(6,886,157)	(312,403)	37,662	(7,160,898)
Land improvements	(1,671,608)	(215,136)	-	(1,886,744)
Furniture and equipment	(1,940,013)	(86,188)	134,456	(1,891,745)
Total accumulated depreciation	(10,497,778)	(613,727)	172,118	(10,939,387)
Total capital assets being depreciated, net	10,193,476	(472,873)	(15,505)	9,705,098
Governmental activities capital assets, net	$ 10,787,934	$ (395,521)	$ (15,505)	$ 10,376,908

NOTE 6 BOND AND CAPITAL LEASE OBLIGATIONS

Refunding Revenue Bonds

The Refunding Revenue Bonds, Series 1992, in the original amount of $2,520,000 mature annually in varying amounts from December 1, 1993 through December 1, 2012. Interest is payable semi-annually at varying rates from 3.6% to 7.4%. The bonds are secured by a first lien on the net revenue of the Authority. See Note 4 for bond reserve and sinking fund requirements.

Fiscal Year	Principal	Interest
2007	$ 145,000	$ 89,283
2008	155,000	78,255
2009	170,000	66,230
2010	180,000	53,280
2011	195,000	39,405
2012-2013	435,000	32,745
Subtotals	1,280,000	359,198
Unamortized bond discount	(9,420)	-
Total	$ 1,270,580	$ 359,198

As discussed in Note 4, the Authority was in violation of one of its bond covenants as of June 30, 2006. According to the bond resolution for the bonds, such violation is considered an event of default. Per the bond resolution, upon the happening and continuance of any Event of Default, then in every case the Owner or Owners of not less than 25% in principal amount of the bonds then outstanding may proceed against the Authority to protect and enforce their rights. Accordingly, the entire principal amount of the bonds outstanding as of June 30, 2006 and 2005 in the amount of $1,280,000 and $1,415,000, respectively, has been classified as current.

Capital Leases

The Authority has entered into several capital lease agreements as lessee for financing the acquisition of various maintenance equipment, concession buildings and various office equipment. None of the principal payments are over $10,000 for the year 2007.

The assets under capital leases are as follows as of June 30:

	2006	2005
Assets:		
Buildings	$ 66,357	$ 66,357
Furniture and equipment	111,558	727,951
Subtotal	177,915	794,308
Less: accumulated depreciation	(93,659)	(696,373)
Total	$ 84,256	$ 97,935

The future minimum lease obligations and the net present value of these lease payment as of June 30, 2006 were as follows:

Fiscal Year	Amount
2007	$ 29,345
2008	27,009
2009	8,517
2010	1,659
2011	1,659
Total minimum lease payments	68,189
Less: amount representing interest	(4,441)
Present value of minimum lease payments	$ 63,748

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$ 1,415,000	$ -	$ (135,000)	$ 1,280,000	$ 1,280,000
Less deferred amounts on refunding	(7,326)	-	(2,094)	(9,420)	(9,420)
Total bonds payable	1,407,674	-	(137,094)	1,270,580	1,270,580
Capital leases	113,358	-	(49,610)	63,748	26,297
Total	$ 1,521,032	$ -	$ (186,704)	$ 1,334,328	$ 1,296,877

Long-term liability activity for the fiscal year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
Refunding revenue bonds	$ 1,545,000	$ -	$ (130,000)	$ 1,415,000	$ 1,415,000
Less deferred amounts on refunding	(8,372)	-	1,046	(7,326)	(7,326)
Total bonds payable	1,536,628	-	(128,954)	1,407,674	1,407,674
Capital leases	226,263	-	(112,905)	113,358	53,214
Total	$ 1,762,891	$ -	$ (241,859)	$ 1,521,032	$ 1,460,888

NOTE 7 PENSION PLAN OBLIGATIONS

A. PERA Plan Description

Many of the Authority's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in the case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans, are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA(7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed another 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents will receive a survivor's benefit.

B. Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005 to December 31, 2005, the state contributed 10.15 percent of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2005-06, 1.02 percent of the employee's total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was under funded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100 percent funding. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The Authority's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006, 2005 and 2004 were $195,416, $186,529 and $177,533, respectively. These contributions were equal to the required contributions for each year.

NOTE 8 VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b or 401(a) plan.

NOTE 9 POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 2005-06, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

The Health Care Trust Fund is maintained by the authority's contribution as explained in Footnote 7 above.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

Life Insurance Program

During Fiscal Year 2005-06, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

NOTE 10 RISK MANAGEMENT

The State currently self-insures its agencies, including the Authority, officials, and employees for the risk of losses to which they are exposed (general liability, motor vehicle liability, worker's compensation, and medical claims). Additional information regarding the State's risk management programs is included in the State's comprehensive annual financial report. There have been no significant reductions in insurance coverage from coverage in the prior year and the amount of settlements has not exceeded insurance coverage for any of the past three fiscal years.

NOTE 11 TABOR (TAXPAYERS BILL OF RIGHTS)

For the Fiscal Years Ended June 30, 2006 and 2005, the Authority qualified for exclusion from the provisions of Article X, Section 20 (TABOR) of the State of Colorado's constitution.

NOTE 12 DUE TO THE STATE TREASURY

The Authority obtained an authorized loan from the State Treasury permitting the Authority to maintain a deficit cash position at various times in the Treasury up to $2,400,000. The Treasury charges interest to the Authority at the current earnings rate on pooled cash. As of June 30, 2006 and 2005 the rate was 3.6% and 3.5%, respectively. The balance of $1,514,802 as of June 30, 2006 consists of $1,398,442 deficit cash balance in the Treasury and $116,362 balance in warrants payable. The balance of $905,040 as of June 30, 2005 consists of a $867,527 deficit cash balance in the Treasury and $37,513 balance in warrants payable. The agreement has no stated due date. House Bill 06-1384 will provide funding to pay off the amount due to the State Treasurer during fiscal year ending June 30, 2008.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Litigation – The Authority is currently the defendant in several lawsuits arising principally in the normal course of operations. In the opinion of legal counsel, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements; accordingly, no provision for losses has been recorded.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Legislative Audit Committee:

We have audited the financial statements of the business type activities of the Colorado State Fair Authority (the Authority), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Findings and Recommendations section of this report as Recommendations No. 2, 3, and 6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described in the accompanying Findings and Recommendations section of this report as Recommendation No. 2 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard.*

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wall, Smith, Bateman and Associates, Inc.

WALL, SMITH, BATEMAN AND ASSOCIATES, INC.
Certified Public Accountants

October 9, 2006

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COLORADO STATE FAIR AUTHORITY
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2006

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado State Fair Authority (Authority) for the year ended June 30, 2006, and have issued our report thereon dated October 9, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our contract dated May 10, 2006, our responsibility, as described by auditing standards generally accepted in the United States of America promulgated by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is the depreciation of capital assets. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates the proposed adjustment and records the adjustment if it is necessary to prevent the financial statements from being materially misstated. We proposed one journal entry for $549,512 to reclassify state contribution revenue to a federal contribution. We also had seven passed adjustments that were not recorded. If these adjustments would have been posted they would have had a total effect of $(37,562) on the statement of revenues, expenses and changes in net assets.

Disagreements with Management

For purposes of this report, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit

One significant difficulty encountered in dealing with management in performing our audit was the length of time it took for the Authority to provide us with information and to respond to our questions. This significantly delayed the completion of the audit.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

October 9, 2006

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